
CMS Medicare Manual System

Pub. 100-6 Financial Management

Department of Health &
Human Services (DHHS)
Centers for Medicare &
Medicaid Services (CMS)

Transmittal 2

Date: AUGUST 30, 2002

CHAPTERS	REVISED SECTIONS	NEW SECTIONS	DELETED SECTIONS
----------	------------------	--------------	------------------

2		Entire Chapter	
---	--	----------------	--

CLARIFICATION - EFFECTIVE/IMPLEMENTATION DATE: Not Applicable.

Medicare contractors only: these instructions should be implemented within your current operating budget.

This transmittal includes chapter 2 of the restructured Medicare Financial Management Manual.

The completed manual includes ten chapters containing all CMS instructions to carriers and intermediaries about CMS requirements described in the table below. This material was derived from the source material as shown in the last column.

While this revision updates and reorganizes text from current manuals, it includes no new procedures. It is a reorganization and compilation of these instructions into a single financial management manual for intermediaries and carriers. Where there are differences in carrier and intermediary requirements, we distinguish to which contractor the instructions apply. Contractors should send any questions or suggestions for improvement to their ROs.

This manual is designed primarily for display on the Internet. The following changes from past paper manual protocols are used as a result of the Internet environment.

- Redline - It is not possible to place a vertical bar in the left margin on Internet documents. Therefore changed text is identified by red, italic font. Note that redline is not used on this initial transmittal because all the text is new.
- Displaying change dates - The date and revision number for the last change in the section or subsection is shown after each section/subsection heading instead of at the bottom of the page.
- Page numbers - are not applicable for Internet documents.

- Distribution of printed copies is discontinued.

Also for the initial issuance a cross-reference is placed after each section heading to identify the source from where the material originated. This will be eliminated as subsequent transmittals replacing the same sections are released.

As the ten chapters are distributed the current financial instructions in PMs and the Carrier and Intermediary Manuals will be deleted.

Chapter	Chapter Title	Source
1	Budget Preparation	MIM-1, Chapters 1, 2, & 6 MCM-1, Chapters 1, 2, & 6
2	Budget Execution	MIM-1, Chapter 3 and 5 MCM-1, Chapter 3 and 5
3	Overpayments	MIM-2, Chapter 3, MIM-3, Chapter 8 MCM-3, Chapter 7
4	Debt Collection	MIM-2, Chapter 3 MCM-3, Chapter 7
5	Financial Reporting	MIM-1, Chapters 4 & 9 MCM-1, Chapters 4 & 9
6	Workload Reporting	MIM-3, Chapter 9 MCM-3, Chapter 13
7	Internal Control Requirements	New Material Issued With This Manual (CR 2231)
8	General Audit Guidelines	MIM-2, Chapter 1, MIM-4, Chapter 1
9	Intermediary Procedures for Provider Audits	MIM-4, Chapter 2
10	Provider Statistical & Reimbursement Report	MIM-2, Chapter 3

MIM = Medicare Intermediary Manual, CMS Pub 13, e.g., MIM-1 is Part 1 of CMS Pub 13

MCM = Medicare Carrier Manual, CMS Pub 14, e.g., MCM-2 is Part 2 of CMS Pub 14

Medicare Financial Management

Chapter 2 - Budget Execution

Table of Contents

10 - General.....	5
20 - Cost Report Forms Supply	5
30 - Contractors Performing Services for Other Medicare Contractors	5
30.1 - Servicing Contractor.....	6
30.2 - Receiving Contractor.....	6
40 - Special Cost Reporting Issues	6
50 - Exhibit of the Certification Schedule for the Interim Expenditure Report (IER)	7
60 - Completing the Cumulative (IER).....	9
60.1 - Transmittal and Due Dates	9
60.2 - Completing the IER.....	9
60.3 - Hours - Activity Form	9
60.4 - Costs and Credits - Activity Form.....	10
60.5 - Net Hours Available - Miscellaneous Schedule.....	10
60.6 - Administrative Funds Drawn - Certification Schedule	10
60.7 - Contractor Certification - Certification Schedule.....	11
60.8 - Remarks - Activity Form and Certification Schedule	11
60.9 - Forward Funding	11
60.10 - Hard Copy Requirements	11
70 - Exhibit of Variance Analysis.....	12
80 - Variance Analysis.....	15
80.1 - Transmittal and Due Dates	15
90 - Explanation of Reporting Requirements for the Variance Analysis	15
90.1 - Reporting Parameters	15
90.2 - Instructions for Completing the Variance Analysis Explanation Report	16
100 - Fiscal Year Over Expenditures - October-September IER.....	16
110 - Control of Administrative Funds Drawn.....	17
120 - Budget Amount Appears Insufficient.....	17
130 - Completing the Final Administrative Cost Proposal (FACP).....	18

130.1 - Transmittal and Due Date.....	18
130.2 - Activities.....	18
130.3 - Hours (Hours Fields of the Activity Form)	19
130.4 - Costs (Cost Item Fields of the Activity Form)	19
130.5 - Forward Funding	19
130.6 - Workload (Workload Field 1 of the Activity Form)	19
130.7-Exhibit of Credit Schedule Attachment to the Cost Classification Report..	20
130.8 - Completing the Credit Schedule Attachment to the Cost Classification Report.....	21
140 - Supporting Documentation for the FACP	21
150 - Financial Procedures for Release of Medicare Information to the Public.....	22
160 - Financial Procedures Related to Medicare Projects Funded by HHS Components Other Than CMS.....	22
160.1 - Release of Existing Medicare Information.....	22
160.2 - Development of Additional Data.....	23
170 - Special One-Time Costs Associated With Non-Continuation of the Medicare Contract.....	23
180 - Budget Execution Check List for Program Management and Medicare Integrity Program.....	23
190 - Intermediary/Carrier Retention of Records for Federal Audit	24
190.1 - Examination of Records	24
190.2 - Performance of Audits.....	25
190.3 - Records Maintained.....	25
190.4 - Availability of Records.....	25
190.5 - Preservation and Destruction of Records	25
190.6 - Appeals, Litigation and Exceptions.....	26
190.7 - Subcontracts.....	26
190.8 - Fiscal Reviews.....	26
200 - Cost Accounting Standards - General	27
200.1 - Consistency in Estimating, Accumulating, and Reporting Costs.....	27
200.2- Consistency in Allocating Costs Incurred for the Same Purposes	28
200.3 - Accounting for Unallowable Costs.....	29

NOTE: Revision 2, the initial issuance of this chapter, includes a cross reference to the source sections in current manuals. The manual is identified by A1, A2, A3, or A4 for Intermediary Manual Parts 1 through 4; or by B1, B2, B3 or B4 for Carriers Manual Parts 1 through 4. This indicator is followed by a dash and the related section number.

10 - General

(Rev. 2, 08-30-02)

A1-1300, B1-4300

This chapter establishes fiscal controls to ensure efficient use of the Health Insurance Trust Funds. These controls are necessary to implement program objectives and to carry them out within established limitations. Each contractor shall plan its operation within the lower of the approved annual budget, the approved periodic budget distributions and the certified funds available for Program Management (PM) and Medicare Integrity Program (MIP) budgets separately, and without co-mingling. It is responsible for performing a continuing analysis of the approved budget in light of experience and projected future needs. It shall report any change in fiscal requirements to CMS. (See §120.)

Monthly Interim Expenditure Reports (IERS) prepared for PM and MIP funding, are required to assure adequate financing of the program and to enable CMS to control its overall expenditures. A Final Administrative Cost Proposal (FACP) is required after the expiration of the FY to form the basis for the audit and final determination of allowable costs. (See §180 for a list of all budget execution reports due.)

The contractor shall prepare a narrative identification of unallowable costs for all cost reports in accordance with Chapter 7, Section 3, Accountability and Chapter 1, §80.B.

20 - Cost Report Forms Supply

(Rev. 2, 08-30-02)

A1-1301, B1-4301

Copies of all cost reports referred to in the ensuing sections can be obtained from the Contractor Administrative-Budget and Cost Reporting (CAFM II) System.

30 - Contractors Performing Services for Other Medicare Contractors

(Rev. 2, 08-30-02)

A1-1302, B3-4302

When services such as provider audit, EDP processing, bill/claims processing, and appeals are performed by a Medicare contractor for another Medicare contractor, the receiving contractor shall report costs as subcontract costs. It shall not include the productive hours associated with the subcontract costs on the Activity Form. See Chapter 1, §210.

The Blue Cross and Blue Shield Association (BCBSA) performs most of the Plan PRRB appeal activity. However, some Plans still maintain their own Provider Reimbursement Review Board (PRRB) representation and may require BCBSA assistance periodically. If a Blue Cross Plan requests the assistance of the BCBSA in connection with a specific PRRB appeal, BCBSA invoices the Plan for the cost and is paid by the Plan and the standard procedures for reporting costs are followed.

30.1 - Servicing Contractor

A1-1302.1, B1-4302.1

The servicing contractor shall accrue the costs involved and submit a monthly invoice to the receiving contractor. It shall submit invoices promptly to permit the receiving contractor to submit its IER on a timely basis. It shall include adjustments to previous invoices in subsequent invoices. The servicing contractor must have adequate documentation by cost category to support the invoice amount. It shall not include these costs in its cost reports.

For provider audit, the contractor shall furnish, **on a periodic basis**, a Contractor Auditing and Settlement Report, Form CMS-1525A, with the applicable data entered.

30.2 - Receiving Contractor

(Rev. 2, 08-30-02)

A1-1302.2, B1-4302.2

The receiving contractor shall include the invoiced amount as subcontract costs in all appropriate functions and activities on the IER, Contractor Auditing and Settlement Report (CASR) CMS-1525A, (Intermediaries Only), and FACP submitted to CMS. It shall include the servicing contractor's name in the Remarks section of the Activity Form. It shall develop estimates for use in cost reports when the servicing contractor does not submit an invoice in time for inclusion in the cost report.

40 - Special Cost Reporting Issues

(Rev. 2, 08-30-02)

A1-1303, B1-4303

Shared system costs and CWF satellite costs for ongoing maintenance, as well as for the other costs of the user groups, e.g., travel, are to be allocated according to the following instructions.

The general rule for allocating costs when more than one Medicare function/activity is affected is to allocate time and cost equitably to the activities benefiting from the related work. There are three generally acceptable approaches for allocating such costs.

- Charge ongoing costs to Activity 11001, Bills/Claims Processing, if the work primarily benefits that activity;
- Charge ongoing costs to the activities which benefit from the work, if the benefit can be demonstrated and is documented; or
- If the cost is small and the related work generally benefits all Medicare functions, it may be allocated to all Medicare activities using the same or similar methodology to that stated in Chapter 1, §90.10, on overhead costs. Note that this is not a statement that such costs are an overhead cost, but only that such costs may be allocated in the same or similar manner.

50 - Exhibit of the Certification Schedule for the Interim Expenditure Report (IER)

(Rev. 2, 08-30-02)

A1-1320, B1-4320

CONTRACTOR NAME	ADMINISTRATIVE BUDGET AND COST REPORT				IER	CERTIFICATION
ADDRESS LINE 1	MEDICARE CONTRACTORS				EIN:	XXXXXXXXXXXX
ADDRESS LINE 2	INTERIM EXPENDITURE REPORT				ACCEPT DATE:	
CONTRACTOR NO:	PART:	FUND YR:	REPORT YR:	MONTH:	SUPPLE NO:	
#####	X	XXXX	XXXX	XX	XX	CAFM II

<u>CREDIT ITEM</u>	<u>AMOUNT</u>
Complementary Credit:	<u>XXX,XXX,XXX,XXX</u>
MEDICAID:	<u>XXX,XXX,XXX,XXX</u>
MEDIGAP:	<u>XXX,XXX,XXX,XXX</u>
Total Credits:	XXX,XXX,XXX,XXX
Accrued Credits:	<u>XXX,XXX,XXX,XXX</u>
Total Adjusted Credits:	XXX,XXX,XXX,XXX

PM ACTIVITY SUMMARY BY FUNCTION

<u>CODE</u>	<u>DESCRIPTION</u>	<u>TOTAL COST</u>	<u>TOTAL ADJ. COST</u>
11000	BILLS/CLAIMS PAYMENT	_____	_____
12000	APPEALS	_____	_____
13000	INQUIRIES	_____	_____
14000	PROVIDER EDUCATION/TRAINING	_____	_____
15000	PARTICIPATING PHYSICIAN	_____	_____
16000	PROVIDER REIMBURSEMENT	_____	_____
17000	PRODUCTIVITY INVESTMENTS	_____	_____
18000	SPECIAL PROJECTS	_____	_____
19000	MEDICARE PROGRAM ADMIN	_____	_____
XXXXX	RESERVED	_____	_____
	CREDITS	_____	_____
TOTAL		_____	_____

ADMINISTRATIVE FUNDS DRAWN

<u>DATE</u>	<u>DRAWN FOR</u>	<u>PRIOR</u>	<u>PRIOR</u>	<u>PRIOR</u>
	<u>CURRENT</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>
	<u>YEAR</u>	<u>19XX</u>	<u>19XX</u>	<u>19XX</u>
MM/DD/YYYY	_____	_____	_____	_____
MM/DD/YYYY	_____	_____	_____	_____
MM/DD/YYYY	_____	_____	_____	_____
MM/DD/YYYY	_____	_____	_____	_____
TOTAL	_____	_____	_____	_____

I CERTIFY TO THE BEST OF MY BELIEF OR KNOWLEDGE THAT THIS DATA IS ACCURATE, COMPLETE, AND CURRENT AS OF THE DATE OF THE EXECUTION OF THIS CERTIFICATE.

CERTIFYING OFFICIAL _____
 TITLE _____

REMARKS: _____

60 - Completing the Cumulative (IER)

(Rev. 2, 08-30-02)

A1-1321, B1-4321

The IER provides cumulative costs for each activity, using the same multiple-use Administrative Budget and Cost Report format referenced in Chapter 1, §80. It adds the Administrative Funds Drawn section to the Certification Schedule as displayed in §50. The contractor shall report costs on an "allowable costs" basis in accordance with 48 CFR 52.216-7(b) and on a fully accrued basis including year-end and other adjustments.

It shall follow these instructions unless it has a contract that contains specific terms and conditions that differ from these instructions. In that case, it shall use these instructions as general guidance only.

IERs will generally be submitted on a monthly basis unless otherwise stated in the contractor's specific contract. The contractor shall make adjustments, within a FY, to prior interim reports on the subsequent IER. It shall make adjustments to the October-September IER on the FACP. It shall submit a revised October-September IER prior to submitting a FACP if the changes are material and the change is discovered prior to preparation of the FACP. (See §130.) It shall note all material adjustments.

60.1 - Transmittal and Due Dates

(Rev. 2, 08-30-02)

A1-1321.1, B1-4321.1

The contractor shall transmit the IER via the Contractor Administrative-Budget and Financial Management (CAFM II) System. If the due date falls on a Federal holiday or a weekend, the due date is the next working day. See §180 for CAFM II IER due dates.

The contractor (intermediaries only) shall submit the Contractor Audit and Settlement Report (CMS-1525A) on a periodic basis as required.

60.2 - Completing the IER

(Rev. 2, 08-30-02)

A1-1321.2, B3-4321.2

See descriptions in Chapter 1, §90 and as noted below.

60.3 - Hours - Activity Form

(Rev. 2, 08-30-02)

A1-1321.3, B3-4321.3

The contractor shall furnish cumulative, net working (on-duty) hours directly assigned or otherwise allocated to a particular activity in accordance with Chapter 1, §200. For computing net working hours for each activity, it shall use working hours within the activity. It shall deduct the same company-wide paid leave percentage experienced during the month or use paid leave hours, if available. It shall exclude non-compensated overtime hours. It shall include or exclude, as appropriate, personnel hours loaned and borrowed by each activity. It shall include hours worked by temporary help, furnished by outside organizations. The hours to report for temporary help are those incurred by non-employees who are under the contractor's direct supervision. (See Chapter 1, §90.9P.) The contractor shall round entries to the nearest hour.

60.4 - Costs and Credits - Activity Form

(Rev. 2, 08-30-02)

A1-1321.4, B3-4321.4

The contractor shall round all costs and credits **to the nearest dollar**.

60.5 - Net Hours Available - Miscellaneous Schedule

(Rev. 2, 08-30-02)

A1-1321.5, B3-4321.5

The contractor shall enter the number of net cumulative productive hours required to convert total incurred productive hours to equivalent staff-years for the reporting period. See Chapter 1, §200.

60.6 - Administrative Funds Drawn - Certification Schedule

(Rev. 2, 08-30-02)

A1-1321.6, B1-4321.6

This screen is used only with the IER. The contractor shall report only those draws made during the report month. Reporting of administrative funds drawn is NOT on a cumulative basis. The contractor shall complete as follows:

A. Date - Contractor shall enter the date the draw is received through Smartlink, not the date requested.

B. Draw for Current Year:

Intermediary - enter each draw made during the report month for the current FY

Carrier - Enter the draw amount for the corresponding date for the funding FY of the IER

- C. Prior Year - Contractor shall enter any draws made during the report month for prior years under the identified year column.
- D. Total - CAFM II will calculate the total draws for the month by year. It must agree to the totals reported through Smartlink.

60.7 - Contractor Certification - Certification Schedule

(Rev. 2, 08-30-02)

A1-1321.7, B1-4321.7

An authorized official signs and dates the report.

60.8 - Remarks - Activity Form and Certification Schedule

(Rev. 2, 08-30-02)

A1-1321.8, B1-4321.8

Contractor shall add any appropriate remarks including discussion of items reported in Other Adjustments and Forward Funding.

60.9 - Forward Funding

(Rev. 2, 08-30-02)

A1-1321.9, B1-4321.9

Projected costs **must** be reported on the September IER if the contractor has been approved for forward funding of a project.

60.10 - Hard Copy Requirements

(Rev. 2, 08-30-02)

A1-1321.10, B1-4321.10

Hard copies of the IER and attachments are not required in the RO or CO. The contractor shall retain the signed copy in its files.

NOTE: See §180 for required attachments and due dates.

70 - Exhibit of Variance Analysis

(Rev. 2, 08-30-02)

A1-1330, B1-4330

Variance Version 1

CAFM II (4.11.1) PROGRAM MANAGEMENT VARIANCE ANALYSIS REPORT TIME DATE
 SEPTEMBER FISCAL YEAR PAGE 1 OF X
 CONTRACTOR NUMBER / NAME

PM VARIANCE BY ACTIVITY
 CODE: 1XXXX DESCRIPTION

	IER	NOBA	VARIANCE	% VAR	TOL %	
COST	_____	_____	_____	_____	_____	NEEDS EXPLANATION
WKLD	_____	_____	_____	_____	_____	NEEDS EXPLANATION
UC	_____	_____	_____	_____	_____	NEEDS EXPLANATION

CODE: 1XXXX DESCRIPTION

	IER	NOBA	VARIANCE	% VAR	TOL %	
COST	_____	_____	_____	_____	_____	NEEDS EXPLANATION
WKLD	_____	_____	_____	_____	_____	NEEDS EXPLANATION
UC	_____	_____	_____	_____	_____	NEEDS EXPLANATION

Variance Version 2

CAFM II (4.11.1) PROGRAM MANAGEMENT VARIANCE ANALYSIS REPORT TIME DATE
 MONTH FISCAL YEAR PAGE 1 OF X
 CONTRACTOR NUMBER / NAME

PM VARIANCE BY ACTIVITY

CODE: 1XXXX DESCRIPTION

	IER	BD	VARIANCE	% VAR	TOL %	
COST	_____	_____	_____	_____	_____	NEEDS EXPLANATION
WKLD	_____	_____	_____	_____	_____	NEEDS EXPLANATION
UC	_____	_____	_____	_____	_____	NEEDS EXPLANATION

CODE: 1XXXX DESCRIPTION

	IER	BD	VARIANCE	% VAR	TOL %	
COST	_____	_____	_____	_____	_____	NEEDS EXPLANATION
WKLD	_____	_____	_____	_____	_____	NEEDS EXPLANATION
UC	_____	_____	_____	_____	_____	NEEDS EXPLANATION

80 - Variance Analysis

(Rev. 2, 08-30-02)

A1-1331, B1-4331

The variance analysis consists of two parts. The first part is the CAFM II generated report that shows all variances for the report period and highlights those variances which fall outside established tolerances and require an explanation. Using the data on the generated report, the contractor sends the RO a memo that explains any variance above predetermined tolerance levels.

There are three versions of the variance analysis. Version 1 is created three times during the FY. It shows all year-to-date variances for the report period (IER vs. the approved BD). Version 2 is created with the submission of the September IER. It shows the preliminary end of the year variance (September IER vs. NOBA). Version 3 is created after the submission of the FACP. It shows the final variances (September IER vs. FACP).

80.1 - Transmittal and Due Dates

(Rev. 2, 08-30-02)

A1-1331.1, B1-4331.1

Variance reports are required with the IER for the variance periods and with the FACP. (See §180 for due dates.)

90 - Explanation of Reporting Requirements for the Variance Analysis

(Rev. 2, 08-30-02)

A1-1332, B1-4332

90.1 - Reporting Parameters

(Rev. 2, 08-30-02)

A1-1332.1, B1-4332.1

CMS will determine which activity codes at either the activity or function level will need explanations if a tolerance variance level is exceeded. CAFM II has standard reports to identify which activity or function codes are part of the variance analysis, the required reporting period and the specified tolerances for these periods. Based on the codes and tolerances indicated in these reports, the CAFM II generated variance report will indicate which activity codes need explanations.

90.2 - Instructions for Completing the Variance Analysis Explanation Report

(Rev. 2, 08-30-02)

A1-1332.2, B1-4332.2

The contractor's explanation must include the reason for the variance and what action is being taken to correct the variance by the next IER, e.g., redirection of efforts, abatement of activities (CMS approval required), a supplemental budget request, reduction or increase in staff, or temporary workload backlog. Statements such as "We have exceeded the variance tolerance because adequate funds were not provided by CMS in the budget approval" are neither responsive nor acceptable. All variances between the September IER and the FACP must be explained as defined in §140.

A - The contractor shall identify the month and FY of the report.

B - For each activity cost or workload that exceeds the tolerance percentage as indicated in CAFM II, the contractor shall complete the following in its narrative explanation to the RO:

- It shall enter the code number and name for the function or activity.
- It shall enter the variance percentage as displayed in CAFM II, and
- It shall enter the explanation of the variance.

C - The contractor shall submit narrative explanations to the RO via electronic media. Specific instructions on the type of word processing package to use can be obtained from the contractor's RO.

100 - Fiscal Year Over Expenditures - October-September IER

(Rev. 2, 08-30-02)

A1-1333, B1-4333

The contractor's contract with CMS requires staying within approved budget amounts and levels of certified funds. It shall analyze its financial position in order to advise CMS, in a timely manner, of any anticipated significant deviations. In the event the administrative costs reported in the October-September IER exceed the total approved budget, it shall furnish documentation justifying the over expenditure to its RO with a copy to CO. The request for funding will not necessarily be approved.

CMS reviews justifications for adequacy and, where appropriate and if funding is available, issues a revised NOBA that enables the contractor to draw additional funds. The RO may advise the contractor that consideration of a budget revision is postponed until the FACP is received and analyzed, e.g., where the amount of the over-expenditure

is relatively minor or where the contractor has not justified the over-expenditure. This does not adversely affect the claim for the funds.

110 - Control of Administrative Funds Drawn

(Rev. 2, 08-30-02)

A1-1340, B1-4340

The funding level approved by Congress limits the approval of funds. The contractor shall draw funds to the lower of the cumulative quarterly distribution certified on the NOBA or the amount expended and reported on the IER or FACP. It shall draw administrative funds during the period in line with expenditures. Funds drawn during the subsequent month must be adjusted for administrative funds drawn in excess of actual costs reported.

120 - Budget Amount Appears Insufficient

(Rev. 2, 08-30-02)

A1-1351, B1-4351

A - Submission of SBR

The contractor shall submit an SBR whenever it appears that the budgeted amount is insufficient to adequately perform the required functions and the need for additional funds can be adequately documented. As a general rule, it shall submit the SBR no later than 90 days prior to the exhaustion of funds so as to allow CMS sufficient time to respond prior to the need to submit an abatement notice. (See B below.) The SBR should never be submitted less than 60 days prior to the exhaustion of funds unless it can be demonstrated that it could not have been given in advance. Resolution of the SBR may include:

- An increase in the budget;
- Institution of additional efficiencies;
- A reduction of functions to be performed; or
- Other ways and means agreeable to both parties.

The contractor shall discuss these alternatives in the SBR and, if after negotiating in good faith, there is no satisfactory resolution, CMS will send a written rationale denying all or part of the SBR.

B - Abatement Notice

The contractor shall submit a written abatement notice to the RO no less than 60 days prior to the date on which it appears that the budgeted amount is insufficient to

adequately perform the required functions in accordance with the Cost of Administration Article in the Contract/Agreement.

130 - Completing the Final Administrative Cost Proposal (FACP)

(Rev. 2, 08-30-02)

A1-1361, B1-4361

The contractor shall prepare the FACP allocated by PM and MIP funds. It shall include all Medicare costs incurred during the FY or other period as mutually agreed upon. It shall not include adjustments related to prior years' costs on the current FACP. It shall include them as an amendment to the FACP for the year affected.

The report is the final allocation of all costs, both direct and indirect, including adjustments to previously reported costs. It represents the final claim and serves as the basis for audit and final settlement of allowable costs.

130.1 - Transmittal and Due Date

(Rev. 2, 08-30-02)

A1-1361.1, B1-4361.1

The contractor shall submit the complete FACP consisting of the Activity Forms with all attachments and supporting schedules (See §§130.7 and 140) 3 months after the end of the FY (i.e., December 31). If CMS has approved projects for forward funding, then supplemental FACPs should be submitted. If the due date falls on a Federal holiday or a weekend, the due date is the next working day. The contractor shall transmit the Activity Form data for the FACP electronically on the CAFM II System. It shall forward a signed hardcopy to the RO.

See §180 for transmission deadlines.

NOTE: After submission of the September cost report but prior to submission of the FACP, the contractor shall continue to draw funds for costs incurred not to exceed the total budget. Once the FACP is submitted, additional draws shall not be made until the contractor is liable for payment (forward funded items). Supplemental FACPs shall be submitted no later than 30 days after the close of each subsequent quarter, until all projects are completed, but not later than 30 days after the close of the subsequent FY when these funds expire.

130.2 - Activities

(Rev. 2, 08-30-02)

A1-1361.2, B1-4361.2

Descriptions of these items are in Chapter 1, §100.

130.3 - Hours (Hours Fields of the Activity Form)

(Rev. 2, 08-30-02)

A1-1361.3, B1-4361.3

The contractor shall enter hours as developed using instructions in §60.3. It shall round entries to the nearest hour.

130.4 - Costs (Cost Item Fields of the Activity Form)

(Rev. 2, 08-30-02)

A1-1361.4, B1-4361.4

The contractor shall enter costs and credits as in §60.4. It shall round entries to the nearest dollar.

130.5 - Forward Funding

(Rev. 2, 08-30-02)

A1-1361.5, B1-4361.5

Projected costs **must** be reported on the FACP if the contractor has been approved for forward funding of a project.

130.6 - Workload (Workload Field 1 of the Activity Form)

(Rev. 2, 08-30-02)

A1-1361.6, B1-4361.6

The contractor shall enter the workloads for the period. (See Chapter 1, §90.90.)

- A. Remarks - The contractor shall use for any additional comments and to reference attachments.
- B. Net Hours Available - On the Miscellaneous Screen the contractor shall enter the number of net productive hours required to convert total productive hours to equivalent staff-years for the reporting period. (See Chapter 1, §200.)

130.7-Exhibit of Credit Schedule Attachment to the Cost Classification Report

(Rev. 2, 08-30-02)

A1-1361.7, B1-4361.7

CONTRACTOR NAME		ADMINISTRATIVE BUDGET AND COST REPORT			FACP	COB
ADDRESS LINE 1		MEDICARE CONTRACTORS			EIN: XXXXXXXXXXXXX	
ADDRESS LINE 2		FINAL ADMINISTRATIVE COST PROPOSAL			ACCEPT DATE:	
CONTRACTOR NO:	PART:	FUND YR:	REPORT YR:	MONTH:	SUPPLE NO:	
#####	X	XXXX	XXXX	XX	XX	CAFM II

COORDINATION OF BENEFIT SCHEDULE

TRANSFEEE NAME	TRANS TYPE	FREQ TRANS	NO. CLAIMS TRANSFERRED	CREDIT RECEIVED (INCL TRNSF COST)	UNIT COST	CREDIT CODE
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
XXXXXXXXXXXXXXXXXX	XXXX	XXX	_____	_____	XX.XX	X
TOTAL			_____	_____		

REMARKS:

130.8 - Completing the Credit Schedule Attachment to the Cost Classification Report

(Rev. 2, 08-30-02)

A1-1361.8, B1-4361.8

See Chapter 1, §140 for descriptions of credits.

The credit schedule supports the Cost Classification Report (CMS-2580) attachment to the FACP.

- A. Transferee Name - The contractor shall list the insurers to whom claims are being transferred for complementary insurance (including both internal and external transfers), Medicaid, and Other.
- B. Transfer Type - The method of transfer (electronic or hard copy).
- C. Frequency - The contractor shall indicate whether the transfer is an occasional request or by agreement for ongoing transfer.
- D. Number of Claims Transferred - The number of claims transferred to complementary insurers (including both internal and external transfers), Medicaid, and Other.
- E. Credit Received (Including Transfer Costs) - The total credit received, including transfer costs, for claims transferred to complementary insurers (including both internal and external transfers), Medicaid, and Other. The total credit received for complementary, Medicaid, and other must agree with the totals on the Preliminary Data Entry Screen.
- F. Unit Cost - The credit received divided by the number of claims transferred.
- G. Credit Code - Indicate the type of transfer
 - C = Complementary Insurance;
 - N = Medicaid;
 - M = Medigap; or
 - O = Other (as defined by CMS).

140 - Supporting Documentation for the FACP

(Rev. 2, 08-30-02)

A1-1362, B1-4362

If there are any variances between the September IER and the FACP, e.g., charges or credits or other adjustments that may have been received after the close of the FY, the contractor shall prepare a detailed narrative explanation. If total costs claimed are more than the NOBA for the FY, it shall include a justification for the additional requested funds. (See §120 and Chapter 1, §250.1.)

The RO reviews the narrative justification for adequacy and may issue a revised NOBA, where appropriate, allowing the drawing of additional funds. (See Chapter 1, §.)

If costs claimed on the FACP are less than the administrative funds drawn, the contractor shall make an adjustment to current cash draws for administrative costs to reduce funds drawn for the applicable fiscal period.

It shall include the attachments in §180 as supporting documentation for the FACP.

150 - Financial Procedures for Release of Medicare Information to the Public

(Rev. 2, 08-30-02)

A1-1380, B1-4380

Costs incurred for releasing Medicare information to the public should be reported on the IER and the FACP.

160 - Financial Procedures Related to Medicare Projects Funded by HHS Components Other Than CMS

(Rev. 2, 08-30-02)

A1-1381, B1-4381

Requests may be received to furnish information and/or perform Medicare services by HHS components other than CMS, or from other third parties under contract with other HHS components. The contractor shall handle charges for such services in accordance with the following instructions.

160.1 - Release of Existing Medicare Information

(Rev. 2, 08-30-02)

A1-1381.1, B1-4381.1

If an outside organization has a contract/grant with a HHS component other than CMS to carry out independent studies or projects and requests existing data and/or specific records for purposes of aiding the study, the contractor shall not charge the outside organization.

160.2 - Development of Additional Data

(Rev. 2, 08-30-02)

A1-1381.2, B1-4381.2

A - Outside Organizations

If an outside organization requests data which must be developed or requests other services, the contractor shall invoice such services to the organization and not include those costs on the IER or FACP.

B - HHS Components Other Than CMS

When receiving requests from HHS components, other than CMS, to perform services on various studies, the contractor shall invoice directly to the requesting HHS component and not include these costs on the IER or FACP.

170 - Special One-Time Costs Associated With Non-Continuation of the Medicare Contract

(Rev. 2, 08-30-02)

A1-1382, B1-4382

Special one-time costs associated with a contractor leaving the program are not handled through the normal budget and cost reporting process. Instead, these costs, which may include severance pay for employees or penalty payments for terminating contracts, are handled through a separate voucher process subsequent to submission and approval of a budget request. The voucher should state the period of time covered and itemize the expenses. CMS reviews the voucher and determines whether payment should be made. Approved vouchered costs are paid separately by check or EFT and not through the NOBA process.

180 - Budget Execution Check List for Program Management and Medicare Integrity Program

(Rev. 2, 08-30-02)

A1-1399, B1-4399

FORM NAME

DUE DATE

Interim Expenditure Report - Activity Forms (with following attachments)

20 days after end of reporting month

Miscellaneous Schedule

Special Project Schedule (if applicable)

Certification Schedule

CASR (CMS-1525A) (Intermediaries)	30 days after end of 3rd, 5th, 8th, 12th fiscal month
Audit Selection Criteria Report (Intermediaries)	27 days after end of 12th fiscal month
Variance Analysis	27 days after end of variance month, 4 period annually
Final Administrative Cost Proposal - Activity Forms with following attachments:	3 months after end of FY, Quarterly thereafter as needed
Miscellaneous Schedule	
Special Projects Schedule	
Certification Schedules	
Credit Schedule	
Cost Classification Report	
Narrative Explanation of FACP/IER Differences	

190 - Intermediary/Carrier Retention of Records for Federal Audit

190.1 - Examination of Records

(Rev. 2, 08-30-02)

A1-1500

The Secretary and the Comptroller General of the United States shall have access to and the right to examine those books, records, documents and other supporting data which will permit adequate evaluation of the cost or pricing data submitted by the intermediary, along with the computations and projections used therein. The purpose of the examination shall be to verify that cost or pricing data submitted in conjunction with the negotiation of the agreement, including changes thereto, and the preparation of any fiscal report or settlement, are accurate, complete and current. The right to examination of records shall continue until the expiration of the period prescribed for in §2982 of Part 2 of the Part A Intermediary Manual.

It should be noted that the Secretary and Comptroller General's right of access to these records does not interfere with the intermediary's or carrier's _____. Where records which have been retired to a record center are needed, they should be retrieved.

190.2 - Performance of Audits

(Rev. 2, 08-30-02)

A1-1502

As soon as practicable after the receipt of the intermediary's final cost proposal following the close of the intermediary's accounting year, the Department of Health and Human Services Audit Agency will make an audit of the books of accounts and records pertaining to the health insurance program. Intermediaries will be notified in advance of a scheduled audit. Negotiations on a final determination of the allowable cost of administering the agreement shall be undertaken as rapidly as possible after receipt of the final cost proposal and completion of the audit.

190.3 - Records Maintained

(Rev. 2, 08-30-02)

A1-1504

The intermediary or carrier shall maintain books, records, documents and other evidence pertaining to the costs and expenses of the agreement, as well as accounting procedures and practices (hereinafter collectively called "records"). These records shall be maintained to the extent and in such detail as will properly reflect all net costs, direct and indirect, of labor, materials, equipment, supplies and services, and other costs and expenses of whatever nature claimed to have been incurred, and for which reimbursement is claimed under the provisions of the agreement.

190.4 - Availability of Records

(Rev. 2, 08-30-02)

A1-1506

The intermediary's or carrier's facilities, or such part thereof as may be engaged in the performance of the agreement, and his records shall be subject at all reasonable times to inspection and audit by the Secretary.

190.5 - Preservation and Destruction of Records

(Rev. 2, 08-30-02)

A1-1508

The intermediary or carrier shall maintain and destroy its records in accordance with manual procedures governing records destruction.

190.6 - Appeals, Litigation and Exceptions

(Rev. 2, 08-30-02)

A1-1514

Records which are related to

- a. Appeals under a disputes clause of the agreement,
- b. Litigation or the settlement of claims arising out of the performance of the agreement, or
- c. Cost and expenses of the agreement to which exception has been taken by audit

shall be retained by the intermediary until such appeals, litigation, claims or exceptions have been settled, and for a period of three years from the date of such settlement.

190.7 - Subcontracts

(Rev. 2, 08-30-02)

A1-1516

The intermediary or carrier shall include in each of his subcontracts a provision to the effect that the Secretary and the Comptroller General of the United States shall, until the expiration of three years after termination of the agreement, have access to and the right to examine any books, documents, papers and records of such subcontractors, involving transactions related to the subcontract. The term "subcontract" as used in this paragraph, excludes

- a. Purchase orders not exceeding \$2,500 and
- b. Subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

The foregoing does not apply to subcontracts to perform provider audits.

190.8 - Fiscal Reviews

(Rev. 2, 08-30-02)

A1-1518

Required budgetary, expenditures, and other fiscal reports, submitted monthly, quarterly, and annually by intermediaries, will be reviewed currently by CMS to determine,

primarily, whether the types and amounts of expenditures as reported are in accordance with the provisions of the agreement and properly reflect the intermediary's accountability for advances of Federal funds under the program. The CMS will contact the intermediary to resolve any financial questions relative to expenditure of funds for administrative expenses and care costs.

Problems of a fiscal nature will be reviewed with intermediaries to determine that fiscal policies and procedures relating to the agreement are geared toward prudent, effective and economical operations and reflect adequate consideration of the interests of both the intermediary and the Federal Government. These reviews will be a cooperative process from which the intermediary and Federal Government will mutually benefit. Reviews may be initiated by either party to the agreement. Where fiscal problems arise relative to expenditure of Federal funds under the agreement and an intermediary requests assistance from the CMS, fiscal specialists will be made available promptly.

Periodic cost studies of intermediary operations will be made in order to carry out the congressional mandate relative to making comparative analyses of individual intermediary performance.

200 - Cost Accounting Standards - General

(Rev. 2, 08-30-02)

A1-1520

The Medicare contracts, include a provision for the application of through cost accounting standards to the contractors' accounting systems. The three standards included in the contract are intended to achieve a degree of uniformity and consistency in the contractors' cost accounting practices to be used in connection with their Medicare operations. Following is a discussion concerning the interpretation of the applicable standards:

200.1 - Consistency in Estimating, Accumulating, and Reporting Costs

(Rev. 2, 08-30-02)

A1-1521

The objective of this standard is to maintain a consistency in the cost accounting practices employed by a contractor in its methods used for estimating costs and in its practices used in accumulating and reporting cost during the course of the contract of fiscal period. Consistency in cost accounting practices provides reasonable assurance that comparable transactions are treated alike. This assurance is critical to our program since it provides a reliable basis for valid comparisons between estimated, incurred, and reported costs.

This consistency requirement addresses the accounting structure of the contractor's proposed budget - that is the cost accounting practices used in preparing the budget - not to the amounts estimated or the estimating techniques used. The standard also requires

that a contractor's cost accounting practices used in accumulating and reporting actual costs for the medicare contract shall be consistent with its practices used for estimating costs for the related budget for the same fiscal year. The contractor must comply with this requirement through the term of the contract.

This standard extends to all levels of the contractor's cost accounting system. Therefore, it is necessary that the contractors periodically review their methodologies for preparing their budgets in order to obtain the consistency required with the accounting records.

The standard essentially requires that **significant** items of costs be accorded the same accounting treatment in the estimate and the cost records.

There is no presumption that either of the requirements described above is violated when a contractor groups homogeneous costs in his estimate, but accumulates and reports such costs in greater detail during contract performance. If it is not practicable to estimate by individual cost element or function, the contractor may use groupings of homogeneous costs in his estimate **provided**:

- A. Such grouping does not impair ability to compare any significant cost in an estimate with the actual cost accumulated and reported, and
- B. Estimating practices and accounting practices are consistent with respect to:
 - 1. The classification of costs as direct or indirect,
 - 2. The indirect cost pool assignments to which each element or function of cost is charged or proposed to be charged, and
 - 3. The methods of allocating indirect costs to the contract.

200.2- Consistency in Allocating Costs Incurred for the Same Purposes

(Rev. 2, 08-30-02)

A1-1522

The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to our contract or other cost objective. Thus, no cost may be allocated to a final cost objective as an indirect cost if other costs incurred for the same purpose and in like circumstances have been included as a direct cost of that same or any other cost objective. Conversely, no cost may be allocated to an objective as a direct cost if other costs incurred for the same purpose have been included in any indirect cost pool to be allocated to the same or any other cost objective. The requirement of the standard, though stated in terms of costs incurred, is equally applicable to estimates of costs as used in the contractors' budget preparation.

For the sake of practicality, **minor** items of direct costs may be treated as indirect costs, provided that the treatment is consistently applied to all final cost objectives and provided

that the results are substantially the same as would have been produced if each such cost had been treated as a direct cost. This materiality provision is an integral part of this standard.

200.3 - Accounting for Unallowable Costs

(Rev. 2, 08-30-02)

A1-1523

The purpose of this standard is to establish guidelines for the early identification of unallowable costs and the treatment to be accorded such costs. It is based on the premise that costs should be allocated to their appropriate cost objectives according to beneficial or casual relationships and without regard to their allowability. The standard is concerned with the broad accounting principles that govern cost allocation, not with making otherwise allowable costs unallowable.

Generally, identification is required under varying circumstances for the following classes of unallowable costs:

1. Those which are expressly unallowable or mutually agreed to be unallowable,
2. Those which become designated as unallowable by reason of the Secretary's determination,
3. Those which are directly associated with either (1) or (2),
4. Those which arise out of a work project not contractually authorized, and
5. Those costs for which reimbursement has been previously withheld by BHI.

In addition, costs incurred for the same purpose under like circumstances as unallowable costs must be identified.

Expressly unallowable costs consist primarily of those specified as unallowable in the principles of reimbursement. These costs, as well as costs mutually agreed to be unallowable or mutually agreed to be directly associated with unallowables, must be identified in the contractors' accounting records and excluded from any submitted budget and cost reports.

When the Secretary's determination designates certain costs unallowable because they are directly associated with other unallowables, those costs, too, must be identified if used in budgets and cost reports.

Costs designated as unallowable by the Secretary's determination, as well as costs incurred for the same purpose under like circumstances as those mutually agreed to be unallowable, must be identified if included in a budget or cost report.

The costs of work not contractually authorized must be accounted for in a manner that permits ready separation from the costs of authorized work projects.